

Message Text

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PAGE 01 NEW DE 11354 271017Z

21

ACTION NEA-16

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 SWF-02 PA-04 PRS-01 USIA-15 H-03 DRC-01

/179 W

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R 270701Z AUG 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3501

INFO AMEMBASSY DACCA UNN

AMEMBASSY KATHMANDU UNN

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS NEW DELHI 11354

E.O. 11652: N/A

TAGS: EFIN IN

SUBJECT: ANOTHER BIG BUDGET DEFICIT LOOMS DESPITE RECENT TAX
INCREASES

REF: A. NEW DELHI 10221

B. NEW DELHI A-139 OF APRIL 11, 1974

1. ON AUGUST 23, THE GOI MINISTER OF STATE FOR FINANCE K R GANESH
PRESENTED TO THE PARLIAMENT SUPPLEMENTARY APPROPRIATION REQUESTS
TOTALING RS. 4.65 BILLION (DOLS581 MILLION) FOR IFY 1974/75. THE
SUPPLEMENTARY BUDGET OF JULY 31 (REF A) FOR RAISING ADDITIONAL
REVENUES DID NOT INCLUDE ESTIMATE FOR ADDITIONAL EXPENDITURES.

2. THE MAJOR EXPENDITURES INCLUDE (A) RS. 1.25 BILLION (DOLS156
MILLION) FOR FOOD SUBSIDY BECAUSE OF HIGHER PRICES OF
IMPORTED FOODGRAINS; (B) RS. 750 MILLION (DOLS93 MILLION) FOR
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PAGE 02 NEW DE 11354 271017Z

INCREASED WAGES TO DEFENSE PERSONNEL; (C) RS. 1.52 BILLION (

DOLS190 MILLION) FOR "CORE" SECTORS OF THE IFY 1974/75 ANNUAL PLAN (THE FIRST YEAR OF THE CURRENT FIVE YEAR PLAN); AND (D) RS. 1.12 BILLION (DOLS140 MILLION) FOR INCREASES IN COST-OF-LIVING ALLOWANCES TO GOI EMPLOYEES.

3. THE PROPOSED EXPENDITURES ARE EXPECTED TO BE MET IN PART FROM (A) RS. 1.23 BILLION (DOLS154 MILLION) NEW TAXES ANNOUNCED ON JULY 31; AND (B) RS. 2.0 BILLION (DOLS250 MILLION) REDUCTION IN DEVELOPMENTAL AAND NON-DEVELOPMENTAL EXPENDITURES. THIS STILL LEAVE RS. 1.42 BILLION (DOLS177 MILLION) OF THE SUPPLEMENTARY EXPENDITURES UNCOVERED. THE BUDGET PRESENTED IN FEBRUARY (REF B) ALREADY SHOWED A DEFICIT OF RS. 1.26 BILLION (DOLS158 MILLION). THE TOTAL PLANNED DEFICIT FOR IFY 1974/75 THEREFORE BECOMES RS. 2.68 BILLION (DOLS335 MILLION). THE ACTUAL DEFICIT WILL UNDOUBTEDLY BE LARGER SINCE CURRENT ESTIMATES EXCLUDE THE RS. 1.10 BILLION (DOLS138 MILLION) DEFICIT THE RAILWAY MINISTER EXPECTS INDIAN RAILWAYS TO RUN THIS YEAR DESPITE RECENT FARE INCREASES. THE DEFICIT MUST BE FINANCED BY THE GOI BUDGET. IT ALSO EXCLUDES THE ANTICIPATED DEFICITS IN STATE BUDGETS WHICH DESPITE CENTRAL GOVERNMENT THREATS MIGHT RUN AS HIGH AS RS. 1.75 BILLION (DOLS219 MILLION). ALL THINGS CONSIDERED THE TOTAL DEFICIT FOR IFY 1974/75 COULD BE AS MUCH AS RS. 5.50 BILLION (DOLS690 MILLION), OR HIGHER THAN LAST YEAR'S DEFICIT OF RS. 4.5 BILLION (DOLS562 MILLION). RS. 5.50 BILLION IS ABOUT ONE PERCENT OF LIKELY GNP THIS YEAR AND 6/3 PERCENT OF TOTAL EXPECTED BUDGETARY REVENUES.

4. COMMENT: THE BUDGET IS CAUGHT IN THE GRIPS OF COST-PUSH INFLATION. EXISTING SOURCES OF REVENUE HAVE BEEN PUSHED ABOUT AS FAR AS THEY CAN BE. THERE IS A LOT OF TALK ABOUT CLOSING THE GAP WITH MORE TAXATION OF AGRICULTURE, AND THERE ARE SOME FEEBLE MOVES THIS WAY, BUT THE PROSPECTS FOR RAISING SIGNIFICANT REVENUES FROM AGRICULTURE ANY TIME SOON ARE NOT BRIGHT. (WE ARE PREPARING A SEPARATE PIECE ON WHAT IS GOING ON IN THE TAXATION OF AGRICULTURE).MOYNIHAN

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